

30 April 2025

Palace Capital plc
("Palace Capital" or the "Company")

TRADING AND STRATEGY UPDATE

Palace Capital (LSE: PCA) announces an update on trading and strategy following the Company's disposals, debt and cash update announcement on 11 April 2025.

Update on delivery of strategic objectives

During the financial year ended 31 March 2025 (FY25), we continued to progress our strategy to return capital to shareholders through the disposal of investment and residential properties. This was achieved through the sale of £35.0 million of assets at 6.0% above the 31 March 2024 valuation and returning cash of £21.7 million to shareholders by way of a successful, oversubscribed tender offer in July 2024, which contributed an additional 2.0 pence to EPRANTA per share. Since the strategic wind down of the Company was announced in July 2022, we have returned over £43 million of cash to shareholders.

Since 1 April 2025, the Company completed the sale of HQ Office, York, a freehold, multi-let building, for a gross price of £10.0 million, which, after adjusting for rent top ups, was in line with the 31 March 2024 valuation.

The Company has been in a net cash position since April 2024 and in line with the terms of the loan agreement with Scottish Widows, the Company repaid the outstanding £8.0 million loan (£7.9 million net of the loan break gain) in March 2025, in advance of the completion of the sale of the NHS units at Halifax as reported on 11 April. The Company is now debt free and the portfolio is entirely unencumbered and currently has cash of £30.9 million, compared with £22.2 million as at 31 March 2025.

Total investment properties sold since the change of strategy in July 2022 amount to £145.6 million (£160.3 million including residential apartments).

The Company currently has five investment properties remaining, which were valued at £39.0 million as at 31 March 2025. One of these assets (Leamington Spa) is under offer, another (Halifax) is expected to be marketed for sale in September or the fourth quarter of 2025, subject to market conditions, following its part disposal in March 2025. The remaining three require the completion of ongoing asset management activities in order to be ready for sale. An update on progress made together with the current position is set out below under Disposal and asset management strategy post FY25. We reported in the Interim Results in November 2024 that conditions in the investment market for certain types of assets, particularly leisure assets, were such that, in the Board's view, the sale of these assets should be deferred until market demand and pricing improve, particularly given the high income yield and long unexpired lease terms. We remain of this view although we expect market conditions to improve later this year assuming that financial markets are less volatile than at present. The increase in bank lending to UK real estate businesses seen over the last twelve months is encouraging and should bring more liquidity to property investment markets as should further interest rate reductions which are expected during 2025.

In addition, there are ten apartments remaining at Hudson Quarter in York valued at £4.3 million and sales of these will continue subject to market conditions.

Palace Capital continues to reduce its level of administrative expenses in line with its strategy, with measures being implemented expected to result in a significant reduction in headcount from six to three executives from the second half of 2025. This together with other cost reduction measures when fully implemented are expected to produce annualised savings of c.£0.9 million resulting in annualised administrative expenses of c.£1.3 million from the second half of 2025.

Portfolio overview

As at 31 March 2025, the portfolio comprised seven properties (March 2024: 12) comprising by value 58% office, 34% leisure and 8% residential, which were independently valued by CBRE at £53.2 million. The investment portfolio produced a small increase compared with the valuation as at 30 September 2024 principally as a result of the completion of the Vue lease regear at Sol, Northampton but this was negated by the reduction in the value of the residential properties due to muted sales activity at Hudson Quarter, York since November 2024, due to wider economic uncertainty.

Asset management

Operationally, the business remains robust. An additional £0.7million of annualised net rental income was created during FY25 through leasing and review activity and the associated reduction in non-recoverable property costs, which was on average 3% ahead of the March 2024 ERVs.

During FY25 a key letting was achieved at Imperial Court, Leamington Spa (20,419 sq ft) where we completed a 10 year lease with a mutual break in year five to Lighthouse Games Ltd at a rent of £0.38 million per annum, which was in line with the March 2024 ERV.

It was previously reported that an agreement was reached in principle with Vue Cinemas at Sol, Northampton to regear their lease and bring their total term to 20 years, expiring in 2044, with a material increase in rent and five-yearly upward only rent reviews linked to RPI with a cap and collar structure. The lease regear was completed in January 2025 and the comprehensive refurbishment of the cinema, including a recliner seating upgrade, associated auditoria decorative works and foyer refurbishment commenced in March 2025 and is expected to take four months to complete. The Company has made a significant capital contribution towards these works as reported previously.

An Agreement for Lease on lower ground vacant office suite (3,660 sq ft) at HQ York was completed in March 2025 increasing the occupancy rate of the property to over 90% with only half a floor (2,932 sq ft) remaining available. This letting was critical to the Company being able to sell the property for £10 million in April 2025, as previously announced.

Disposal and asset management strategy post FY25

The portfolio currently consists of five investment properties and one residential property in York.

There are ten apartments remaining for sale at Hudson Quarter, York (valued at £4.3 million). Market conditions remain difficult following the Budget in October 2024 although enquiries have increased since price reductions were announced in March 2025.

The strategy for the remaining five investment properties, which had a value of £39.0 million as at 31 March 2025, is as follows:

Broad Street Plaza, Halifax

At the end of March 2025, Units 5&6b were sold on a long leasehold interest for £4.8 million to Calderdale and Huddersfield NHS Foundation Trust, at a 7.5% NIY and 38% ahead of the March 2024 valuation. Additionally, the sale included the removal of a seven year annual uncapped service charge shortfall landlord liability, the value of which was estimated at £0.4 million and which will benefit the future sale of Halifax. The sale resulted in a reduction in the lot size of the property which potentially could attract a wider range of purchasers in due course.

The investment market for leisure assets continues to be difficult with debt finance currently hard to obtain for such assets, notwithstanding the diversity and longevity of income from some of these properties, including Halifax. The lack of liquidity in this sector means that valuations can be volatile.

The March 2025 valuation of Halifax was £8.5 million, NIY of 13.2%, EY of 16.0%, the WAULT to expiry was 14.0 years (8.5 years to break) and the occupancy rate was 90%.

Short term interest rates are expected to reduce further over the coming months and it is expected that this property will be marketed for sale in September or the fourth quarter of 2025 subject to market conditions at that time.

Sol, Northampton

As noted above, the completion of the Vue lease regear was transformational for this property and together with other recent asset management activities extended the core WAULT to 13.2 years on expiry (12.9 years to break) and increased the occupancy rate to 95% as at March 2025.

The higher rental income achieved at Sol from the above activities increased the valuation as at March 2025 to £9.7 million (March 2024: £8.6 million) resulting in a NIY of 14.2% and EY of 12.2%. Included within the valuations is a contingency relating to a review of the fabric of the building and a comprehensive fire strategy review. The completion of these reviews will determine whether any further steps or works are required. This work is an essential part of the process of preparing the property for sale.

As is the case with Halifax, the investment market for leisure assets is currently weak with a limited pool of buyers and therefore the focus is on the completion of the refurbishment of the Vue cinema and other asset management activities before considering the appropriate timing for disposal which is unlikely to be before the fourth quarter of 2025/first quarter of 2026, again subject to market conditions at that time. It is arguable that Sol could be viewed over a longer timeline, say two years, before full value may be realised for shareholders.

The blended key metrics for the two leisure assets are NIY 13.8%, EY 13.7%, WAULT 13.6 years and 10.7 years to expiry and break respectively (March 2024: NIY 13.4%, EY 12.8%, WAULT 14.2 years and 11.1 years to expiry and break respectively).

Some real estate market participants believe that the commercial real estate sector is at an inflection point and that with interest rates likely to fall further the arbitrage between property yields and interest rates becomes more attractive to investors, which could potentially lead to property yields hardening and a repricing of certain leisure assets, particularly those with long WAULTs and high yields.

St James' Gate, Newcastle

The office market in Newcastle remains challenging both from a letting and investment perspective. In 2024 the take up of office space in the city was mainly focused on best-in-class, new Grade A space with strong ESG credentials.

Active asset management initiatives are ongoing and will include the light refurbishment of the ground floor of 2 St James' Gate (2 SJG). Further lettings of the vacant space are required in order to increase the occupancy from 68% as at March 2025 and extend the WAULT prior to the asset being ready for sale. It is pleasing to note that occupancy has increased under the management agreement with Orega and this trend will need to be further established before a sale can be contemplated which in our view is unlikely before the second quarter of 2026.

As is the case with Sol, it is arguable that 2 SJG could be viewed over a longer timeline, say two years, before full value may be realised for shareholders.

Unit 3A is currently on the market for sale for £0.6 million and it is expected that the vacant Unit 3C will be put on the market within the next three months.

The March 2025 valuation of 2 SJG was £10.4 million, NIY of 6.9%, EY of 12.2%, the WAULT to expiry was 5.9 years (3.0 years to break).

Imperial Court and House, Leamington Spa

Following the completion of asset management activities the property was marketed in the first quarter of this year and is now under offer.

The Forum, Exeter

In 2024 we actively explored a change of use for this 1970s office building to one that we believe will realise more value on sale and identified PBSA as having a significantly greater value. As part of this strategy, we are making good progress with tenants to achieve a vacant possession block date within the next twelve months and are also progressing with a pre-application for a PBSA scheme to de-risk the site for a potential buyer.

If these initiatives are successful, we will market the property for sale, which is likely to be in the fourth quarter of 2025.

The March 2025 valuation of Exeter as an office building was £3.0 million and the occupancy rate was 67%.

Summary

Since the change of strategy announcement on 19 July 2022, investment property disposals have generated proceeds of £145.6 million at a 16.3% reduction to the March 2022 valuation (which was the peak of the current property cycle) or 4.3% ahead when compared with the relevant March valuation prior to sale.

Commenting on today's update, Steven Owen, Executive Chairman said:

"The success of our disposal strategy since July 2022 means that the Company is now debt free and the remaining portfolio is unencumbered which together with its strong cash position gives it both flexibility and optionality over the timing of its disposal programme and it is expected the Company will return further cash to shareholders by way of a tender offer.

"The Company has disposed of the bulk of its portfolio which now comprises only five investment properties and one residential property. We will commence discussions with shareholders regarding the timing and strategy for these remaining assets and returns to shareholders."

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